



FROM THE IUSTORIA BLOG

Due Diligence: What We Look for When You Buy a Company

A guide for first-time acquirers — four areas we focus on during due diligence and why each one matters.

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You are buying a company for the first time and someone has told you that you need "due diligence." You probably know it involves some kind of review. But what exactly we review, why, and how it shapes your decision — most buyers discover that only during the process itself.

Due diligence is not a formality. It is the process that determines whether you are actually buying what you think you are buying. In our practice, we focus on four core areas.

1. Legal review: contracts, disputes, IP, real estate

The first and most extensive area. We go through the target company's key contracts — supplier agreements, customer agreements, leases, licence agreements. We look for provisions that could become problematic after a change of ownership.

A typical example from practice: we were acquiring a company whose main customer had a change-of-control clause in the contract. If the supplier's ownership structure changed, the customer had the right to terminate immediately. That contract represented 40% of the target's revenue. Without due diligence, the buyer would have learned about this risk only after the transaction closed.

We also review ongoing and threatened litigation, trademark and patent registrations, intellectual property ownership, property conditions, and easements.

Legal due diligence is not about reading documents. It is about recognising what is missing from them.

2. Corporate review: who actually owns what

It sounds straightforward, but in practice, this is where the biggest surprises emerge. We review the ownership structure — who holds shares, how they acquired them, whether shares are encumbered by pledges or pre-emption rights.

An example: in one transaction, we discovered that the founder had transferred a 30% stake to his wife as a gift ten years earlier. However, the gift had not been properly reported to the capital contributions administrator, and the commercial register entry did not reflect reality. The result: the ownership structure presented by the seller was not legally valid.

Corporate due diligence also includes analysing general meeting resolutions, managing director service agreements, consents, and powers of attorney. We look for gaps in decision-making processes that could call into question the validity of earlier transactions or the company's obligations.

3. Regulatory review: licences, permits, compliance

Certain industries require specific licences or permits — healthcare, energy, financial services, waste management, food production. We verify whether the target company holds all necessary authorisations, whether they remain valid, and whether they are transferable.

An example: the buyer was interested in a company operating a network of outpatient clinics. Due diligence revealed that the healthcare licence was tied to a specific individual — the designated professional representative — who was planning to retire. Without that person, the company could not continue operating. This fundamentally changed both the transaction structure and the purchase price.

Regulatory review also covers compliance with data protection regulations (GDPR), environmental law, antitrust rules, and potential sanctions list exposure.

4. Employment review: staff, contracts, liabilities

Employees are often the most valuable asset of a target company — and simultaneously a source of hidden liabilities. We review employment contracts, compensation terms, benefits, collective agreements, ongoing employment disputes, and potential claims.

An example: in one acquisition, we found that the target company had eight managers with non-compete clauses that were improperly drafted — the required consideration was missing. If these employees left after the acquisition, the non-competes would be unenforceable and key personnel could immediately go to work for a competitor.

We also pay close attention to informal arrangements — verbal promises regarding bonuses, promotions, or profit-sharing that are not reflected in the documentation but that employees rely upon.

When you don't need due diligence

Let us be direct: full-scope due diligence is not always necessary. If you are buying a smaller company with a simple business, a single owner, and a transparent history, a streamlined legal review focused on key risks may suffice.

The deciding factor is not the transaction value in monetary terms, but the complexity of the target company. A business with CZK 50 million in revenue but a single main customer, three employees, and a simple model is less risky than one with CZK 10 million in revenue but a complex ownership structure, a regulated industry, and twenty employees.

Due diligence as an investment

In practice, we encounter buyers who view due diligence as a cost. Legal advisors cost money, the process takes weeks, closing gets delayed. All of that is true.

But consider the alternative. Without due diligence, you are buying a company as it appears on the surface. If you discover a hidden problem after the transaction, your negotiating position is zero — you have already paid, the contract is signed.

Due diligence is not just about finding problems. It is a process that gives you the information to make the right decision — whether that decision is to buy, to buy at a different price, to buy with different warranties, or not to buy at all.

Statistically, in roughly one-third of the transactions we handle, due diligence leads to a downward adjustment of the purchase price. In approximately ten percent, it leads the buyer to walk away entirely. In both cases, the investment in due diligence pays for itself many times over.

Buying a company without due diligence is like buying a house without an inspection. It may turn out fine. But if it does not, the price of skipping the review will be incomparably higher than the cost you were trying to save.

If you are considering an acquisition and are unsure what scope of review you need, we are happy to walk through your specific situation and suggest an approach tailored to your transaction. My colleague wrote a concrete cross-border case study in [Cross-border acquisition: lessons from healthcare robotics](#). Before you move into acquisition mode, also make sure the target's [articles of association are not a formality](#) and that [basic contract clauses](#) have been set up properly.

Considering an acquisition and need to know how deep your review should go? In our [transactions practice](#) we calibrate the DD scope to the risks of the specific target. [Get in touch](#).

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